EUROPEAN
INVESTMENT
FUND

EIF CORPORATE OPERATIONAL PLAN 2010-2012

December 2009

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Introduction

European Investment Fund

The European Investment Fund (EIF) is the EIB Group's specialist provider of small and medium-sized enterprises (SME) risk finance across Europe, delivering a full spectrum of financing solutions for selected intermediaries. By taking SME risk, it promotes the implementation of Community policies, notably in the field of entrepreneurship, technology, innovation and regional development. Its unique structure also requires the generation of an appropriate return for its shareholders.

The EIB Group

The EIB Group consists of the European Investment Bank (EIB) and EIF. The range of products offered within the EIB Group extends from equity to senior loans. The principal area of cooperation between EIB and EIF is support of SMEs. In the future, EIB and EIF will continue to develop joint risk sharing solutions and to systematically develop joint client relationships.

The Corporate Operational Plan

This Corporate Operational Plan (COP) covers the major priorities and activities of the EIF including risk management, budget, and staff matters specific to the EIF. Conversely, a separate COP is prepared by the EIB to further detail information relevant to EIB operations.

This document consists of four specific sections:

- The vision and strategy framework, highlighting high level objectives for the next five years.
- Achievements for 2009.
- The business environment of EIF activities.
- Business planning and operations for 2010 to 2012.

1 Vision, strategy and values of EIF

During 2009, EIF management and senior leadership participated in a series of workshops aimed towards defining a common view on the EIF "raison d'être" and to create a joint vision. These workshops stimulated realistic and open discussions on the future of EIF and resulted in the adoption of EIF's common vision:

"Europe's leading developer of risk financing for entrepreneurship and innovation"

In parallel, all EIF staff participated in the elaboration of six core values which are observed in the activities of the entire organisation:

- Excellence
- Teamwork
- Integrity
- Responsibility
- Accountability
- Customer-driven

The twin statutory goals of EIF to support EU Policy Objectives and make a reasonable return on capital frame its seven key medium term objectives:

- "Maximise achievement of EU policies and priorities by developing Critical Sectors and Convergence Countries"

EIF will foster investments in critical and developing sectors as well as in convergence areas throughout Europe. This objective will be achieved by:

- Establishing and developing relationships with local authorities, intermediaries and other stakeholders in SME financing through local presence and focus.
- Stimulating a natural future pipeline for EIF and its mandates through locally sourced and nurtured opportunities in underserved countries.
- Allocating investments to sectors and regions in accordance with European Union policies and priorities (in particular the four areas highlighted by the EU 2020 Strategy: Innovation and Knowledge; Fighting Exclusion; Green Growth and Digital Europe).
- Working with the relevant authorities to amend Structural Fund regulations to further encourage financial engineering.

- "Fully develop an Integrated Risk Finance Product Range"

EIF will add to its existing products in order to fill market gaps and provide SMEs, through financial intermediaries, with the necessary developed and integrated risk finance products. This objective will be achieved by:

- Identifying and analysing market gaps.
- Designing and introducing new and innovative products and mandates aimed towards satisfying existing and future market needs (such as in the areas of Technology Transfer and Microfinance).
- Playing the role of cornerstone of European Venture Capital and leading provider of Credit Enhancement to catalyse SME lending.
- Building an integrated, harmonised approach and cooperation at the EIB Group level.

- "Leverage own capital and mandator's risk capacity to catalyse EUR 10bn Equity, Mezzanine and Debt annually"

EIF will invest and commit available resources to provide a catalytic effect on the market, aiming towards stimulating EUR 10bn in equity, mezzanine and debt financing by intermediaries each year. This objective will be achieved by:

- Proactively seeking to renew European Commission, EIB and Managing Authority mandates nearing the end of their lifespan.
- Structuring its interventions for maximum leverage.
- Seeking to achieve financial returns commensurate with risk taken and costs.

"Establish value creating Risk Management – AAA rating"

EIF will stay at the frontline of risk management best practice to ensure that the function brings value to the organisation and stakeholders, while prudently managing investments and exposures to ensure the AAA rating continues to be reaffirmed. This objective will be achieved by:

- Analysing the capital allocation process, in line with Basel II, to cater to the dual goals of ensuring adequate resources for investment activities, while also capturing treasury and operational risk.
- Mapping of risk/return targets into a long-term 5% return on equity.
- Enhancing stress testing processes, proactive monitoring and associated remedies.

"Build integrated, stable, scaleable systems and processes"

EIF will maintain the vision, flexibility and control necessary for its systems and processes to react to the changing demands of its business lines. This will be achieved by:

- Developing an IT strategy to have a better integration of the different IT platforms.
- Reviewing the different business processes including underlying information and supporting systems for a better optimization of resources.
- Reinforcing robustness of systems (e.g. to facilitate the follow-up, the reporting and the monitoring of a wide variety of mandates and products).
- Developing specific procedures for the activities under mandate, in order to ensure compliance with mandator's requirements and consistency of standards.

"Generate EUR 90m operating profit at 40 – 45% cost to income and long run ROE of 5%"

EIF will aim towards increasing its operating profit to EUR 90m by 2014, through a combination of fee- and risk-based activity, while maintaining a cost to income ratio of 40 – 45% and producing a long run return on equity of 5%. This objective will be achieved by:

- Maximising available resources to generate increased revenues (expected 10% compounded annual growth) by optimizing current mandates and developing new mandates where EIF added value is required.
- Controlling costs through increased efficiency and staff productivity.
- Optimising the use of Own Capital.

"Promote and enhance an excellent internal and external reputation"

EIF will maintain a strong reputation, from both an external and an internal perspective. This will be achieved by:

- Surveying customers' opinions on EIF's added value. Observing industry best practices to provide the first in class customer service.
- Proactive dialogue with EIF's mandators and stakeholders to strengthen continuously these relationships and seek ongoing improvements in mandate execution.
- Following unquestionable business ethics, promoting EIF's mission and underlining its adherence to EU policy objectives and EIB Group objectives.
- Increasing and maintaining a high level of staff satisfaction.
- Attracting and retaining talent and encouraging EIF employee development.

2 2009 Activities

Based on the EIF quarterly performance dashboard, the expectations for 2009 year-end activity are presented below. The business projections are compared with those contained in the COP 2009 – 2011, as approved by the Board of Directors in December 2008, and with the revised COP projections presented to the Board in July 2009.

Client / Business

Equity signatures

EUR m	Projected	*Original COP*	Revised COP
Tech transfer	27	*25*	25
Venture Capital	223	*220*	220
Neotec	40	*40*	40
VC JEREMIE	-	*70*	70
Sub Total VC	290	*355*	355
LMM	382	*420*	420
PVCi	-	*30*	30
iVCi	21	*35*	35
Sub-Total LMM	403	*485*	485
GEEREF	23	*-*	-
Total	716	*840*	840

In terms of 2009 year-end volumes, it is forecast that total equity signatures will reach some EUR 715m, a level nearly double that of 2008. Although the level of approvals has been higher than anticipated (especially in Mezzanine Finance) the actual number of signatures has suffered from a lack of private co-investors.

Across the equity business lines, EIF has maintained a high level of support by backing teams in the early process of their fundraising. Particularly, in 2009, EIF has played an instrumental role in helping teams to attract co-investors and to reach sufficient fund size to enact their strategies. This is essentially achieved by taking higher than usual commitments at first closing.

Guarantee commitments

EUR m	Projected	*Original COP*	Revised COP
Own resources	13	*700*	230
CIP (budget)	120	*90*	90
Joint Op.	-	*200*	50
JEREMIE (FRS)	224	*400*	235
Total	357	*1,390*	605
CIP Nominal	2,146	*1,550*	1,550
Total (CIP nominal)	2,383	*2,850*	2,065

For the Guarantees and Securitisation business, 2009 has been an abnormal year with a quasi absence of securitization transactions due to the prevailing market conditions. This has been compensated by a strong uptake of the CIP operations. However, the low level of new securitisation operations will have an impact on EIF potential revenues for the next two to three years.

Regional Business Development activity

EUR m	Projected	*Original COP*	Revised COP
JEREMIE			
Asset Under Mgt	1,182	*1,050*	1,050
# Agreements	13	*12*	10

JEREMIE assets under management at the end of the year and the number of holding funds will both be above target.

Operational excellence / Risk management

Internal Business Processes

# PROJECTS	*Projected*
Total	60+
Completed	18
AUDIT ITEMS	
Outstanding	below 50
Completed	<60%

By year end, 18 innovative projects will have been completed resulting in improved functions and reporting within EIF. These projects include, inter alia, the Balanced Scorecard, internal cost saving, data recording and reporting for JEREMIE, value added methodology, product development and mandate management.

Closing audit items remains a focus and an Audit Coordinator position has been created to aid in the follow up and timely closing of these items with the aim of reaching the EIB Group target of 60%[1].

Employer of choice

Human Resources

	Achieved	Target
Recruited	39	42
Staff Satisfaction index*	75%	70%
Mobility (internal)	9%	-

* Final outcome of the 2009 annual survey

From a Human Resource perspective, 2009 was a year of expansion in order to meet the increased resource needs generated by new activities and the higher requirements from our mandators as well as to fill the gap of open positions carried over from the previous year.

During the year, other recruitments related to internal mobility and growing needs for mandates (JEREMIE) took place.

A number of initiatives launched under the Employer of Choice vision have started to make an impact on staff motivation and will be pursued with the objective of anchoring them into the EIF leadership culture.

[1] Number of closed audit recommendations divided by the number of audit recommendations issued in the previous two years.

3 Business Environment

General economic outlook

The latest data generally confirms that global economic activity started to pick up in the summer months and that an upswing is currently underway in a number of key economies. However, most economists remain conservative in predictions regarding a recovery; there are common trends in the analysis of the economic outlook for the near future:

- The current bounce back of some economic indicators is likely to be short-lived - conditions persist which indicate that there will not be a sustained recovery until 2011.
- The pace of recovery in different parts of the world will vary significantly, i.e. recovery in Central and Eastern European countries will take longer to materialize (although not all of the economies are expected to respond at the same pace).
- Reasons:
  - Financial sector health not yet restored.
  - Lack of financing: deterioration in availability of bank loans and other financing.
  - Increase in business insolvencies (high elasticity of insolvencies to growth).
  - Rising unemployment, unlikely to peak before mid-2010.
  - Deteriorating profit margins in the non-financial corporate sector.
  - Reduction of stabilising public interventions and fiscal stimuli.

SMEs

The global financial crisis has significantly affected the European economy and the resulting credit crunch has severely limited the availability of financing for SMEs. Market surveys show that over the past six months, SMEs have seen a strong decrease in sales and profits along with increased production costs, suggesting that they have been affected more than large firms. Moreover, there are now tougher financing conditions for firms and smaller businesses. These circumstances have created a difficult market environment for SMEs and led to a sharp increase in bankruptcies which is expected to continue throughout 2010.

Private Equity market

Many private equity funds are having problems reaching fundraising targets, leading to closing delays and smaller fund sizes. As the fundraising difficulties drag on and the traditional investor base – commercial banks, investment banks, corporate operating funds, insurance companies and public pension funds – is unwilling to take the risks on these equity investments, funds are looking towards governments and institutional investors for support. In general, fundraising is, according to market participants, more difficult than it was even in the post internet bubble period.

Guarantee and Securitisation

The SME CLO market has dramatically dropped in the last two years. With the exception of securitisations structured with the sole objective to benefit from European Central Bank refinancing there were and are substantially fewer deal opportunities. The ECB's recently announced changes of the eligibility requirements for ABS (when used in Eurosystem credit operations) signals the beginning of a more stringent regime with regard to central bank dependent financing. There are recent signs of a timid market recovery, with a few SME deals being structured (for private placement) and some (non SME backed) ABS transactions publicly placed with capital markets.

On the valuation side, many downgrades have been based on portfolio deterioration, as a result of the recession and increased defaults, but have also been the result of methodological changes introduced by the rating agencies which have increased uncertainty for market participants. It is expected that downgrades will continue in 2010.

4 Business planning and operation: 2010 – 2012

4.1 Business Development, Strategic Imperatives and Key Action Items

Existing EIF products provide support to a broad spectrum of market segments. Forecasts for commitments over the period 2010 – 2012, as described below, are driven by the availability of resources as well as the expected market environment.

4.1.1 Equity Investments

EIF's equity teams aim to be at the forefront of building self- sustaining venture capital and private equity markets, as Europe's reference investor in SME/mid cap- oriented intermediaries.

- Global equity targets for 2010-2012

EUR m	2009 COP	2010	2011	2012
Own resources	30	34	35	36
RCM	300	307	311	325
Mezzanine	200	205	250	300
European Commission (CIP)	90	80	90	105
External mandates				
ERP	40	35	35	35
NEOTEC*	35	29	15	15
iVCi	35	35	50	50
PVCi	30	20	20	20
LfA	10	5	5	5
TTA*			30	50
JEREMIE	70	121	21	
Total	840	871	861	940

* Excluding RCM and CIP

- Venture Capital (Seed to Expansion)

EUR m	2009 COP	2010	2011	2012
Venture Capital (VC)	220	200	220	250

Increased stakes in the short term

Venture capital participations are likely to be spread over fewer funds with increased stakes taken by EIF, especially in first closings, to act as a catalyst to help the funds reach viable sizes and attract additional investors. Current views of the market make it realistic that EIF could achieve EUR 200m in commitments (from RCM; own resources; ERP/LfA and CIP) to venture capital funds in 2010.

Fundraising uncertainty

A considerable pipeline exists for potential venture capital investments under the CIP mandate in 2010 and EIF will progress with a sound selection of "investible" deals. It is, however, uncertain if the market will provide emerging teams with the necessary support to see CIP's 2010 allocation be effectively converted into commitments in 2010. Approvals equivalent to EUR 60m are expected to be allocated under the CIP mandate, however commitments may not materialise until 2011.

Recovery on the horizon

For 2011 and 2012, an expected gradual recovery of the fundraising climate is reflected in the forecast figures of EUR 220m and 250m respectively. Paired with an anticipated decrease of the relative size of the stakes taken by EIF, these amounts should support a growing number of funds and reflect EIF's expectation that there will be easier access to private sector funding than today. Nevertheless, it is anticipated that the European venture capital industry will remain greatly dependent on EIF's catalytic role in the fundraising process and will continue to struggle in achieving fund sizes of sufficient scale to sustain viable investment models.

- Growth Capital / Lower Mid-Market

EUR m	2009 COP	2010	2011	2012
LMM	220	230	230	230

Build existing relationships and foster new ones

EIF will pursue the existing investment strategy in Growth Capital/Lower Mid-Market (LMM) segment for 2010 – 2012. We will continue to back a number of successful existing relationships focused on SMEs while also selecting new counterparts as additions to the portfolio or replacement of existing counterparts, such as teams taking independence and qualified emerging teams. Under this strategy there will be a continued focus on pursuing geographical diversification of the portfolio.

Steady volumes

Although affected by the current credit market conditions, the LMM segment remains one of the few market segments that continues to offer interesting opportunities for investors with adequate capital. EIF's LMM commitments will remain steady for the next three years at about EUR 230m p.a. It is anticipated that the fundraising climate will remain difficult and lead to significantly reduced commitments to private equity funds by other investors. The number of funds invested by EIF should thus remain more or less stable; however, reaching their target sizes will continue to be a lengthy process, reinforcing the added value of EIF's presence at early closings, especially when committing larger stakes.

Geographic diversification

Commitments are expected in about 10 – 12 funds each year, spread across the EU. The expectation for 2010 – 2011 is that there will be an interesting deal flow coming from the UK, Italy and Spain while 2011 – 2012 should be more focused on France, the Nordic region and the German speaking countries. Investments will always be considered in every European region, and will especially continue to support the development of the Central, Eastern and South Eastern European markets. The composition and diversification of the EIF portfolio will remain closely monitored, as it is expected that a number of European GPs might disappear, merge or simply deploy their funds more slowly and cautiously over longer investment periods leading to a reduced rotation of the portfolio.

- Mezzanine Finance

EUR m	2009 COP	2010	2011	2012
Mezzanine	200	205	250	300

Global mezzanine slowdown
LMM mezzanine or hybrid funds are likely more affected by the current fundraising situation described above than other types of equity funds, which is clearly evidenced by the fact that only two Mezzanine funds worldwide were able to reach a first closing during first half 2009. In efforts to provide a catalytic effect to this market segment, the EIB mandated EUR 1bn Mezzanine Facility for Growth (MFG) was approved in mid-2009 and should be fully deployed by EIF before the end of 2012.

Increasing support to the mezzanine market
A strong and consistent increase in commitments is expected under MFG, amounting to EUR 205m in 2010, EUR 250m in 2011 and EUR 300m in 2012. The MFG will specifically focus on innovative investment strategies (transactions without equity sponsors or in support of late stage technology companies) and will ensure increased attention to emerging teams or first time funds without relevant track records. These characteristics make the segment of limited attractiveness for the other potential investors. This is one of the "raisons d'être" of the MFG, which through substantial commitments at early closings can mitigate the lack of interest of LPs and have a positive impact on the fund raising traction.

Focus on new fund managers
The MFG radar for 2010 ranges from emerging managers needing time to finalise and finance their initiatives to a limited number of established managers able to quickly and efficiently put money to work for the benefit of European SMEs and Mid-Caps. Forecasts for 2011 – 2012 assume the progressive emergence of new fund managers and an increasing demand for mezzanine and hybrid debt/equity as a growth-financing tool, both of which are closely monitored and encouraged by EIF. It is expected that between 8 and 12 players will be supported each year under the MFG, allowing an adequate global diversification of the mandate over 30 – 35 funds.

- Technology Transfer

EUR m	2009 COP	2010	2011	2012
TTA	25	20	50	70

Increasing support

Based on the current available resources, Technology Transfer (TTA) investments are expected to amount to EUR 20m in 2010. Additionally, EIF has conducted a strategic review to determine the potential for increases in TTA activity and the ability to attract the necessary resources for additional support to this market segment. To meet the growing of the TTA market segment, EIF will increase its investment in this area towards EUR 50m in 2011 and EUR 70m in 2012. Over the medium-term, EIF will seek to continue expanding its level of TTA support beyond that stated above and has identified three possible approaches to increased capital, which will be pursued in parallel. The additional resources will come from:

- Creating a dedicated window from existing resources, providing up to EUR 40m p.a.;
- Establishing a TTA mandate or pilot project that could provide up to EUR 60m p.a.; and,
- Pooling available resources through related Member State and institution initiatives to create one combined initiative with up to EUR 100m p.a. of additional resources.

The increased TTA investment levels will require a reinforcement of two dedicated TTA staff members to service the expected deal flow and to position the EIF for the future in this rapidly growing market. A joint EIB-EIF operation may be pursued to maximise Group resources in support of this important market segment.

- Funds of Funds

EUR m	2009 COP	2010	2011	2012
Neotec	40	40	20	20
PVCi	30	20	20	20
iVCi	35	35	50	50

Neotec

All outstanding deals approved by the Neotec Investment Committee will by signed by the end of 2010. There will be capacity for at least one investment in addition to the outstanding commitments, and the investment period will be completed in 2012.

PVCi

Commitments under PVCi are currently running at a pace of EUR 20m p.a., which is in line with the annual volumes experienced for the different EIF mandates throughout the 2006 – 2008 period. Signature of an investment in Inter Risco 2 is expected in 2010, depending on outcome of GP/Sponsor negotiation.

iVCi

Following an initial period of relationship building and market mapping, iVCi's investment pace is expected to increase to allow commitments in 2-4 funds p.a. This includes emerging teams but also existing and reputable players returning to the LMM market. New commitments are expected to increase from EUR 35m in 2010 to EUR 50m p.a. in 2011 and 2012. By meeting these investment targets, it can reasonably be envisaged that most of the program would be committed by the end of 2012.

- GEEREF

EUR m	2009	2010	2011	2012
GEEREF		40	40	

The Global Energy Efficiency and Renewable Energy Fund (GEEREF) is a EUR 108m fund with investments from the European Commission (DG AIDCO), Norway and Germany and run by a joint Front Office Team comprised of EIB and EIF staff. Beginning in early 2010, GEEREF fundraising will target both public and private investors at a moment when there is significant political and investment interest in visible support for renewable energy, which may help offset the depressed investment environment. The EIB Group, with its experience and large portfolio in renewable energy, is uniquely positioned to catalyse investors interested in the sector.

GEEREF is planning to achieve at least three commitments in 2010, amounting to EUR 40m, with sufficient remaining capital to carry out up to four projects 2011, excluding potential additional raised capital. Furthermore, GEEREF will finalise up to three Technical Assistance projects by early 2010, with two additional projects completed during the year to utilise the EUR 5m of available funds. A replenishment of the facility will be discussed with the European Commission in 2010. Any increase in staffing will depend on the level of positive evolution of GEEREF fundraising.

- Potential new mandates

In addition to the forecasts provided above, EIF has been selected as a successful bidder to manage a GBP 200m (including GBP 100m of EIF investment) UK Innovation Investment Fund (UKIIF) and is currently involved in the tender process for another government promoted mandate (Nordic Investment Fund). These mandates will complement EIF investment in UK and Nordic countries for 2010 and beyond.

4.1.2 Guarantees and Credit Enhancement

EIF's guarantees and credit enhancement division (G&S) aims to act as a catalyst of SME lending in countries of EIF operations.

- Global G&S Targets for 2010

EUR m	2009 COP	2010	2011	2012
Own resources	230	400	500	500
CIP (budget)	90	100	110	110
Joint Group operation:	50	75	90	100
JEREMIE		121	120	
JEREMIE (micro)		33		
JEREMIE (FRS)	235	323		
Sub-Total JEREMIE	235	477	120	
Total	605	1052	820	710
CIP Nominal	*1550*	*1400*	*1600*	*1600*
Total (CIP nominal)	*2065*	*2352*	*2310*	*2200*

- Own Credit Enhancement and Securitisation

Mainstream and tailor-made transactions

Despite the economic climate, EIF remains a point of reference with a unique position and solid track record in SME securitisation. Own risk guarantee business will therefore be deployed selectively through:

- Mainstream SME securitisation with large market players committed to SME financing and requiring support to enable them to mobilise increased capital for the sector.
- Tailor-made transactions with second tier banks. Here, EIF acts not only as provider of credit and capital protection but also plays a strategic structuring role for balance sheet and liquidity management.

We expect a moderate recovery in market sentiment in the course of 2010, with improved business opportunities and an increased role for EIF as a credit enhancer. Accordingly, in 2010 it is planned to originate EUR 400m in new guarantee commitments in respect of some 5 – 6 transactions. Target exposures will consist of:

- Senior tranches (triple-A and double-A) for an indicative amount of EUR 200-250m in true sale securitisation transactions aiming at funding, in which the EIF wrapped notes will be placed with cash investors; and
- Mezzanine tranches (BB/BBB/A) for an indicative amount of EUR 80-150m in transactions where originators aim also to release regulatory capital.

Additionally, a limited amount of EIF own resources guarantees (EUR 10m) are expected to be committed as EIF co-investment in Joint-Group operations in the context of the EIB Risk Partnership loans.

A further recovery in the securitisation market is anticipated for the years 2011 and 2012, with a planned increase in guarantee volumes and number of deals compared to 2010 (indicatively EUR 400m of new commitments p.a.).

- Joint EIB-EIF operations

EIF is currently working with EIB on 3 Risk Partnership Loan (RPL) pilot projects, following which a final decision by EIB is expected as to the launching of such product on a larger scale basis. Globally, joint operations between EIF and EIB are expected to reach EUR 75m in 2010 and increase towards EUR 100m by 2012, of which 10% (EUR 8-10m) would be supported by EIF own resources.

- CIP

<u>CIP utilisation for strong catalytic effect</u>
In 2010, total budgetary commitments in respect of CIP guarantees will amount to some EUR 100m, with a leveraged volume (nominal guarantee amount) of about EUR 1.4bn (equivalent to a leverage effect of about 14 – 15 times). This corresponds to the full commitment of the available resources under the CIP SME Guarantee Facility, with approximately 25 new and renewed transactions to be signed.

<u>Market oriented geographic strategies</u>
New commitments will comprise both amendments (increase and extension) of existing agreements and signature of contracts with new intermediaries:

- In older member countries, EIF will mainly build on its existing network of private and public Guarantee Institutions, which are the natural partners under CIP.
- In new Member States contracts will be signed with both Guarantee Institutions and commercial banks. However, CIP is facing potential competition in Central and Eastern Europe from government and other EC initiatives.
- In accession and candidate countries, a strong marketing effort is underway to originate sound applications from public institutions, commercial banks and MFIs, in particular in Turkey and Croatia.

For the years 2011 – 2012, EIF expects to sign mostly amendments of existing contracts, subject to the budget availability: the cumulative budgetary commitments under the CIP SME Guarantee Facility are projected to reach some EUR 500m by 2012.

4.1.3 Regional support and advisory business

- JEREMIE holding funds

EUR m	2009	2010	2011-2012	Total
Greece	100		50	150
Romania	100		100	200
Latvia	92		(92)	-
Lithuania	290	(70)	(220)	-
Slovakia	100			100
Languedoc Roussillon	30			30
Campania	90			90
Cyprus	20		8	28
Bulgaria	200			200
Sub-total	1,022	*(70)*	(154)	798
Under discussion				
Veneto	30			30
Canary Island	20			20
Malta	10			10
Sicilia	60			60
Abruzzo		30		30
	120	*(40)*	-	150
Assets under management	1,142	1,102	948	948
Number of holding funds	13	14	12	12

Operational phase with continued increase in holding funds

In 2009, EIF entered into the operational implementation phase of JEREMIE (Joint European Resources for Micro-to-Medium Enterprises). It is anticipated that an excess of EUR 1.1bn of funds will be under management, in 13 holding funds, at the start of 2010. During the period 2010 – 2012, a further increase in funds under management is expected with one new holding fund for 2010, with EUR 30m of additional assets under management. However, the primary focus for JEREMIE shall be the management of the existing holding funds, aiming to commit EUR 0.6bn in a sustainable way through a range of leveraged equity and debt instruments in 2010. The transfer of holding funds for 2011 – 2012 will be compensated by the growth of advisory activities (see below). EIF's role extends beyond the successful implementation of the JEREMIE holding funds; to establishing and developing strong relationships in all markets in which it is active, often through a physical local presence; to building up knowledge of the specific dynamics and needs of the local markets; to representing and promoting EIF and the full range of services and instruments it has to offer. All of which is expected to help EIF to reach the next tier of financial intermediaries, to extend its reach and excellence beyond its traditional geographic coverage and to nurture a natural additional deal flow to EIF and EIB.

- Advisory activity

EUR m	2009	2010	2011-2012	Total
Assets under management	140	100	400	640
Advisory transactions	1	1	4	6

The management activity of JEREMIE will be further complemented by EIF advisory services to holding funds managed by third parties. EIF's position in the advisory marketplace is to support local authorities in the implementation of their initiatives. One regional advisory transaction has been signed and up to 5 additional advisory transactions are expected during 2010 – 2012.

- JEREMIE Equity activity

EUR m	2009 COP	2010	2011	2012
JEREMIE (VC & TTA)	70	121	21	

Equity investments to be made in the near future
European structural funds must be invested in final beneficiaries before 2015; therefore the majority of the equity activity will take place in 2009 and 2010 to allow funds the necessary average of 4 to 5 years to deploy their money. Globally, for the next three years, EUR 142m will be allocated to private equity funds in 7 different JEREMIE holding funds.

- JEREMIE Guarantee activity

EUR m	2009 COP	2010	2011	2012
JEREMIE		121	40	
JEREMIE (micro)		33		
JEREMIE (FRS)	235	323	80	
Total	235	477	120	

Implementation of existing mandates
In 2009, G&S began implementing 9 existing JEREMIE mandates. In particular, the standard terms of the Funded Risk Sharing instruments have been nearly finalised and the first commitments are expected in the last quarter of the year. As regards portfolio guarantees, two calls for expression of interest have already been launched. However, discussions with the European Commission Services (DG REGIO) remain to be finalised and there is still high uncertainty as to what extent guarantees for mezzanine tranches of existing SME loan portfolios can be offered to market players.

Full commitment expected
Subject to positive clarification on the eligibility of portfolio guarantees (eligible expenditure and minimum leverage), G&S will fully commit the available budget of EUR 477m through the finalisation of some 30 new transactions. This will include all available "debt instruments" (i.e. portfolio guarantees and funded risk sharing instruments). Volumes for the following years will be estimated on the basis of updated projections on new JEREMIE mandates.

Finally, the product and development team has currently 3 micro-credit transactions in the pipeline for a total of EUR 33m to be signed.

4.1.4 Strategic product development and marketing

- Mandate management and product development

Optimisation of current mandates
In its role as key interface to EIF shareholder-mandators for the strategic development of the partnerships, Mandate Management will continue its intense dialogue with EIB and the Commission DGs to improve the efficiency of EIF's mandates. This will also involve the build-up of a systematic repository of "lessons learnt" from current mandates and industry best practices, to be productively used in the development of EIF's strategic options going forward. This will also be combined with a more systematic analysis of internal mandate profitability.

Discussions are expected to start with the Commission in relation to follow-on mandates for the next programming period from 2014 onwards, including identification of efficient implementation frameworks.

Expansion of mandates
There will be a focus on the optimisation and deliberate expansion of EIF's mandate resources, along with the further elaboration and refinement of the corresponding tools and methodologies. An important strand in this context is the continuing work on the deal allocation policy and a tool to demonstrate the non-financial value added of EIF's operations. New products and mandates under development will be further piloted (e.g. technology transfer, risk sharing loans) and existing mandates will be reviewed, in pursuit of sustainable mandate activity in support of EIF's strategic priorities, entrepreneurship and innovation. This strategic development role will include a close collaboration with EIB to ensure maximum consistency in the EIB Group product offerings.

- Technical Assistance Services

Maximising impact in support of mandate objectives
Upon stakeholder request, EIF has complemented some of its investment management mandates with Technical Assistance (TA) services. EIF seeks to strike a sound balance between the resources required to successfully execute TA services and the expected benefits in terms of financial and non-financial value added achieved. Likewise, since TA services build on, to a large extent, EIF´s core expertise, the opportunity cost of the required internal resources is assessed when considering new mandates in this field. The value added derived from combining financial assistance with non-financial TA support lies in the expected increased impact and outreach potential of the financing provided.

- Microfinance

A new strategic business line

The Commission (DG EMPL) has launched a new initiative in the field of social policy and entrepreneurship to address, in particular, the adverse effects of the global financial crisis on at-risk groups. In this context, EIF is negotiating with the Commission a new mandate ("Progress Microfinance Facility") which will provide up to EUR 150m to support employment, development of micro-enterprises and the social economy. The mandate, which is expected to be match-funded by the EIB, shall be deployed over the 2010-2013 period in the form of guarantees and debt products, and is expected to be operational in early 2010. It aims at increasing the lending activity to micro borrowers through a wide range of financial intermediaries such as MFIs, dedicated micro finance companies or investment funds, local savings banks, smaller co-operative banks, smaller development banks/institutions and selected local commercial banks (the latter particularly in the new Member States of the EU).

This new initiative complements a number of recently launched Commission, European Parliament and national programs in support of the sector and managed by the EIF, as well as own resource securitisations in the field. In particular:

- Portfolio guarantees under the CIP microfinance window.
- The JASMINE initiative (Joint Action to Support Microfinance in Europe), comprising technical assistance services in support of non-bank microfinance institutions, and a EUR 20m pilot window for investment activity made available by EIB under the Risk Capital Mandate. Under the latter, EIF has signed one investment and further transactions are in the pipeline.
- Microfinance windows under JEREMIE holding fund agreements.
- An additional EUR 4m will be made available by the European Parliament through a Preparatory Action and is expected to be ready for investment in 2010.

Apart from the above, EIF continues to support microfinance through own resource securitisation transaction.

The guarantee activity would be structured along the lines of CIP in terms of infrastructure set-up but with different terms. The loan activity (i.e. senior loan facilities, subordinated loan facilities, funded risk sharing facilities, possibly with a smaller portion of equity instruments) could either be set-up as a SICAV/SIF structure or could build on an increase and continuation of Micro RCM in combination with new EC resources, e.g. through a capped portfolio guarantee.

Resourcing the strategy

A new team of five EIF staff will be dedicated through EIF's incubation activity to developing a tailored microfinance investment strategy and conducting the investments. In cooperation with Mandate Management, it will be ensured that the various microfinance activities will form a consistent package of measures, raise synergies between technical assistance and investment programs and reach sufficient scalability as a business line. The new mandates are expected to generate revenues in accordance with EIF's financial objectives.

4.2 Value Added of EIF Operations

A working group has begun the elaboration of a formalised value added methodology for the equity and guarantee activities. This methodology will support the ex-ante screening of investment proposals and demonstrate to EIF's stakeholders, in a transparent manner, the expected value added in connection with EIF's operations. The main principle underlying the new methodology is that EIF's activity creates value at two levels:

- Indirectly at the market level, based on a pre-defined intervention logic of a given mandate or activity and translated into the specific objectives, the choice of instruments, the regional focus and other investment criteria of such mandate or activity.
- At the intermediary level, where EIF can contribute to promoting the "offer side" of the market by unlocking investment capacity through a cornerstone investor role, i.e. creating a leverage effect in line with the targets presented above.

- Leverage

CAPACITY	x	LEVERAGE	IMPACT OF EIF ACTIVITY
		2009-2012	
Equity		3-6X	▪ EIF equity investments are cornerstone to the European VC industry ranging from 15% to 33% in each Fund Manager supported
Guarantees CIP		14-17X	▪ First loss guarantees under CIP generate high leverage (particularly with Guarantee Institution Intermediaries)
Guarantees Own Risk		~7X	▪ Double effect of Regulatory Capital released + funding mechanism (if non synthetic) ▪ Reflects a mix of mezzanine and senior risk tranches
JEREMIE	*Guarantees*	5-7X	▪ JEREMIE Guarantee structure similar to own risk ▪ Standard factor for FRSP deals 2X
	Funded Risk sharing	2X	▪ Additional leverage is expected through securitisation and microfinance transactions

Through using available risk resources from its own funds and mandators, EIF's financial engineering and cornerstone catalytic role in the equity markets leads to a growing impact in the form of risk financing for the maximum number of SMEs possible. To help reach the objective of mobilising EUR 10bn p.a., EIF will track its leverage effect in the markets.

4.3 Operational Excellence

Information and Communications Technology has been integrated with the Projects and Change Management Office to form the Information and Project Management Office (IPMO). IPMO combines the resources of the two previous entities in particular to:

- Strengthen cohesiveness, cooperation and observation of best practices;
- Ensure consistency of methods and tools;
- Leverage competences in delivering projects and services;
- Optimise resources involved in projects;
- Align business requirements, information and technologies.

The continued collaboration with EIB on servicing and development maximises available resources in the area of maintenance and development of IT systems.

- 2010 Initiatives

IPMO will support and implement projects while sustaining the change effect in a coordinated manner by contributing to enforce operational excellence across the various services. An Information and Project Management Committee will continue to meet on a regular basis to assess the progress of existing projects and to evaluate the potential of new ones. The main project areas for 2010 will concern:

- Business Analysis and Information Management: The ultimate objective is to define a sustainable, flexible and agile platform along with a roadmap to its implementation (i.e. Information Strategy). This will enable EIF to fulfil internal and external informational requirements, representing the various business perspectives (e.g. transaction, mandate, product, geography). Several projects/activities will be launched leading to the completion of business processes and information maps, the investigation of "to be" scenarios and, finally, the establishment of a roadmap to achieve the agreed transformations.
- Support to Operational Projects and potential review/optimisation of Business Processes: Business process management activity has increased in relevancy, leading to the active documentation and follow-up of processes, which will result in the optimisation of process performance. Along these lines, a complementary effort has been deployed and will continue to support business-related projects by providing recognised project management methods and tools.
- Reinforcing integrated, stable and scalable systems and processes: The alignment of business processes, the underlying information and the supporting systems requires the establishment of projects within the major business lines. The table below sums up key project areas:

Projects	Description
Document Lifecycle	A DLM investigation project has been initiated in the EIF with the view to propose a centralised and manageable solution for electronic documents management and archiving.
Management Information System	The purpose of this project is to optimize the data warehouse that will regroup the various data sources, allowing for a single and consistent repository for reporting.
Guarantees	Improvement of the system including new features such as monitoring of state aid rules, annual employment surveys for the EC, payment demands sampling and monitoring visits. Adaptation of the system to handle new mandates in the scope of JEREMIE and JASMINE.
Finance	Various adaptations of the current system to improve efficiency and allow the treatment of new products and mandates.
Equity	Enhancements of the current eFront system to include new products and mandates. Support and maintenance of the VC analytical application.

4.4 Risk Management and Controls

In the course of 2009, significant resources, staff and technical, have been dedicated to the management of the portfolio. The Investment and Risk Management Committee has proactively managed internal rating actions and reviewed stress scenarios. The Board of Directors has been systematically updated on the actual and expected performance of both the equity and guarantee transactions (section 5 contains the latest projections).

For 2010, risk management will maintain a rigorous discipline focussed on "analysing, monitoring and managing risk" and "serving internal and external clients". This discipline will be reinforced with additional resources in 2010 and will continue to put in place specific tools/processes to increase its supervision of the EIF's activities, as well as the specialised skills required from staff:

- The Investment and Risk Management Committee will continue its balanced focus on approving transactions prior to the board of directors ("Analysing"), review EIF's portfolio ("Monitoring") and putting in place the appropriate measures to protect EIF's interests in watch list or work out cases ("Managing").
- A Basel II compliant methodology for equity funds, based on a value at risk calculation, has been implemented and has been submitted to the Commission de Surveillance du Secteur Financier (CSSF) for validation. In parallel, the stress testing platform has been enhanced.
- A leading management consultancy has been retained to assist the medium- to long-term review of risk management governance, analytical tools and database platforms for risk management. This will be a pilot project in the articulation of "post-crisis" best practice for both EIF and the consultants.

On the control side the main focus will be:

- Audit strategy and coordination: An increase in mandate activity has resulted in an increase of audit reviews. In order to ensure that audits are managed in an effective and coordinated manner, EIF is currently formulating an audit strategy. This strategy should maximise efficiency and reduce the number of resources used during audit reviews. Continued focus will be placed on the follow-up and closure of audit points. A centralised EIF resource has been hired to ensure the coordination between EIF and Internal Audit so that audit points are followed-up timely and, consequently, closed when appropriate.
- Data quality: A newly created middle office will compliment EIF's ability to produce and track data originating from the front office, while ensuring any necessary follow-up activity is conducted in a timely and professional manner. This function will be a centralised and coordinated source of quality information related to EIF operations.
- Operational risk and compliance: as part of the EIF control functions, it will further enhance its efforts to provide ex ante compliance control and management advice on the basis of revised policies and procedures, with a view to protecting EIF from compliance risk and, in particular, reputation risk. The operational risk function allows an integrated assessment and monitoring of non-financial risks and the promotion of high quality standards in EIF's business principles. In 2010, a methodology will be implemented to form the basis of a systematic assessment of operational risk within EIF, along the line of the Basel II Framework.

4.5 Employer of Choice

- 2010-2012: Meeting mandators' needs

After a year of expansion, with a high number of recruitments which were justified by the rapid expansion of EIF in new activities and mandates (i.e. JEREMIE and JASMINE) and by a number of opened positions carried over from the previous year, 2010 to 2012 will be a period where staff requirements will be driven mainly by new mandate activity.

- Key drivers of new positions

Recent developments have led to a review of the staff requirements for 2010:

  - Signature of 4 additional JEREMIE holding funds in 2009;
  - Substantial increase of microcredit initiatives; and,
  - A business case for a full fledged TTA mandate.

- HR priorities: integration, development and staff incentives

HR's main objective will be to ensure the best fit of competencies with the development of existing and new business activities, as well as achieving the integration of newly recruited staff in full cohesion within EIF.

With the staff satisfaction being a key performance indicator, the following actions will be maintained, developed and further improved.

- Performance management to be consolidated through:
  - Better alignment between EIF's strategy and EIF's staff through the cascading of global KPIs (both non financial and financial) to all individuals; and,
  - Development of individual balanced scorecard allowing alignment of individual performance bonuses with the measurement of KPIs (in line with bonus scheme put in place in 2009).
- Talent management to be further developed and consolidated, through:
  - Monitoring of appraisals and development discussions;
  - Cascading of the Leadership Program (launched in 2009); and,
  - EIF Strategic Training Calendar, individual training responses and project based assignments.
- Responses and Follow-up of the Opinion Survey on a yearly basis.